



MINUTES

School Finance Formula Review Committee

August 24, 2004

MEMBERS PRESENT:

Senator Nancy Boettger, Cochairperson
Senator Bob Brunkhorst
Senator Michael Connolly
Senator Keith Kreiman
Senator Doug Shull

Representative Jodi Tymeson, Cochairperson
Representative Royd Chambers
Representative Kraig Paulsen
Representative Roger Wendt
Representative Philip Wise

MEETING IN BRIEF

.....

Organizational staffing provided
by: Richard Nelson, Senior Legal
Counsel, (515) 242-5822

Minutes prepared by: Kathy
Hanlon, Senior Research Analyst,
(515) 281-3847

- I. Procedural Business.
- II. K-12 School Funding in Iowa.
- III. Recent Trends — Department of Education.
- IV. Local Option Sales Tax for School Infrastructure Litigation Update.
- V. Overview of Department of Management's (DOM) Role.
- VI. Discussion and Closing Remarks.
- VII. Written Documents on File in the Legislative Services Agency.



School Finance Formula Review Committee

I. Procedural Business.

Call to Order. The first meeting of the School Finance Formula Review Committee was called to order by temporary Cochairperson Senator Nancy Boettger at 10:06 a.m., Tuesday, August 24, 2004, in Room 22 of the State Capitol Building in Des Moines, Iowa.

Preliminary Business. Temporary Cochairperson Boettger reminded members that the work of the Committee is not political, noting that all members are desirous of what is best for the students of Iowa. Temporary Cochairperson Representative Jodi Tymeson identified issues before the Committee for review. Representative Philip Wise moved the permanent election of temporary Cochairpersons Senator Boettger and Representative Tymeson. Senator Doug Shull seconded the motion, which was unanimously approved on a voice vote. Senator Bob Brunkhorst then moved approval of the rules governing the Committee. The motion was seconded by Senator Shull and unanimously adopted by voice vote.

Adjournment. The meeting recessed for lunch at 12:01 p.m., reconvened at 1:06 p.m., and adjourned at 2:55 p.m.

Next Meeting Date. The Cochairpersons offered to work with staff and Committee members to determine the next meeting date.

II. K-12 School Funding in Iowa.

Dr. Lee Tack, Administrator of the Division of Financial and Information Services for the Iowa Department of Education, provided an overview of the operation of the current school aid formula, a synopsis of the history of the development of the formula, and spreadsheets detailing, by school district, FY 2004 school district funding sources and amounts per district and comparing, by school district, the total regular program district cost for FY 2004 through FY 2006 (est.). He noted that property tax relief and equity have been goals since the pupil-driven formula came into being, when the state's portion of K-12 funding was approximately 40 percent and the funding from property tax was approximately 60 percent. Those figures are now reversed, with property tax now funding approximately 40 percent and the state funding 60 percent. During the 1990s, he indicated that adequacy emerged as a goal when states began to focus more on increasing student achievement levels. He noted that in other states, adequacy has been forced through legal decisions.

Another goal is to bring all districts with a district cost under the state cost per pupil up to the state cost per pupil, though there is nothing in the current formula that will bring districts any closer to this goal. The range between the highest and the lowest district cost per pupil is \$175, and will never be less, but the percentage of districts at the low end of the range is decreasing. Equalization for cost variations occurs, for example, with transportation costs. The difference in transportation costs must be paid by property tax. To better equalize funding across the state, the foundation level could be increased to 100 percent, so an additional levy would not be needed, and the uniform levy would then be increased to between \$8 and \$9. The district cost per pupil could also be equalized across all districts. Adjustments would be needed to prevent large shifts in property taxes. The uniform levy hasn't been increased for approximately 30 years.



Special education enrollment is still increasing, but not as fast as in prior years. The decision to identify a child as requiring special education seems to be made based on the impact on the child, not on the school's budget. Children are identified by a team, with an AEA leader making the final decision. English as a second language (ESL) is a rapid growth area. At-risk enrollment was frozen, but is now growing under the at-risk funding formula enacted in 2000 (Iowa Code section 256.11, subsection 4). Ten schools may be able to take advantage of reorganization incentives, but only one is moving forward. The schools have less than one year to meet the deadline for participation in reorganization efforts in order to receive reorganization incentives. Over one-half of Iowa's school districts experienced decreased enrollment in FY 2004, many by 5 to 10 percent. Some districts made up 25 percent of their budget using the budget guarantee (or the budget adjustment, as it is becoming known). With the phase-out of the budget guarantee, schools have few options – districts must consider sharing or reducing programs, changing bus routes, buying textbooks less often, and increasing fees.

The School Budget Review Committee (SBRC) can adjust weights to manage the formula, review the cash reserve levies of districts, and ask a district to develop a schedule to increase their cash reserves. Trends in supplemental aid requests received by the SBRC from school districts include aid for excessive maintenance or equipment replacement costs, increased enrollment, dropout prevention programs, and increased ESL costs. Though some districts appear on a regular basis before the SBRC, districts hesitate to increase property taxes too much. The SBRC meets four times a year and 20 to 40 school districts appear before it each time it meets.

III. Recent Trends — Department of Education.

Dr. Tack suggested that the Committee could review expenditures per pupil, a growth mechanism for teacher salaries, the effect of tax increment financing on school districts, instructional support, and the way in which allowable growth is calculated and the way Talented and Gifted programs are funded. He also opined that adequacy issues cannot be ignored. He agreed to provide the Committee with more detail about supplementary weighting and the need for it in the future, and to provide models showing conceptually the results of incorporating certain categoricals, such as teacher quality, class-size reduction, or Phase II into the formula. Whether the Committee chooses to consider additional money or shift current funds will affect the models. He noted that many categoricals are capped, leading to inequities.

IV. Local Option Sales Tax for School Infrastructure Litigation Update.

Ms. Christie Scase, Assistant Attorney General, provided members with an update of a legal action (Coalition for a Common Cents Solution, et al. v. State of Iowa, Warren County District Court, Case No. EQCV 026737) filed in 2002 by a coalition of approximately 160 Iowa school districts. The coalition argued that school districts located in an area with a high property tax base could generate more money utilizing the local sales and services tax for school infrastructure purposes (2003 Iowa Code Chapter 422E — established by the General Assembly in 1998) than school district located in property poor areas, creating greater inequity between school districts. The reason for this is that generally high property tax base districts contain large amounts of retail and commercial property. In 2003, the General Assembly amended the Code chapter to create a fund into which the tax collections from school districts utilizing the tax would be deposited and from



School Finance Formula Review Committee

which moneys would be distributed equitably. However, counties imposing the tax prior to April 1, 2003, were grandfathered in and receive all of the tax collected in the county.

The plaintiff's counsel, after reviewing infrastructure grants, federal fire safety grants, and certain categorical funding, found that the current system is working and will withdraw the lawsuit — reserving the right to take action should the situation change. Ninety counties have passed the tax, it is pending in three, and six have taken no action. Some counties do not have infrastructure needs, but would like to use the tax for other educational purposes. The amounts to be distributed to each county not grandfathered in will not be known until next spring.

The trend in litigation nationally for the past six years has been to challenge school finance formulas using the inherent principle of adequacy. Litigation in other states has largely been successful because of explicit state constitutional requirements. In the absence of a constitutional requirement, and totaling all of the funding streams for Iowa's school districts, there is little cause for concern for litigation in Iowa. Earmarking funding, such as the local option sales tax for school infrastructure, can make a system appear inequitable, but the tax is not the only source of infrastructure funding available to school districts.

V. Overview of Department of Management's (DOM) Role.

Ms. Lisa Oakley, Fiscal and Policy Analyst for DOM and State Budget Analyst for the Department of Education, identified the roles and responsibilities of the Department of Management, which, as they relate to schools, primarily involve K-12 schools and the community colleges. She noted that she distributes a worksheet to schools to assist the schools in their annual budget and tax certification process. The department's strong oversight role over schools ensures that the levies utilized by the school districts are accurate.



VI. Discussion and Closing Remarks.

The following areas of concern and suggestions for future review by the Committee were made by various members:

1. Modification of the formula to provide equal/adequate educational opportunities for all of Iowa's students, including factors such as transportation, property valuation, and multiple levies.
2. Tax increment financing district and forest preserve abatements and municipal taxation.
3. Including categoricals into the formula.
4. Elimination of the requirement that the state percent of growth be established within 30 days of the submission of the Governor's budget (2003 Iowa Code Section 257.8, subsection 1).
5. Methods to encourage schools to offer advanced placement courses.
6. Elimination of old levies.
7. Raising the special education support services foundation base from 79 percent of the special education support services state cost per pupil to 85 percent.
8. Means for increasing funding for education.
9. Promotion of a seamless K-16 system/increasing access to higher education.
10. Changing the formula to reflect the changing trends and needs in education, such as declining enrollment and budget adjustments.
11. Assist community colleges to provide more programs.
12. Make contact with the interim Property Taxation Review Committee.
13. Invite oral or written presentations from interest groups such as the Iowa State Education Association, Iowa Association of School Boards, and School Administrators of Iowa.
14. Redistribution of current transportation funding.

Cochairperson Boettger noted that the cochairpersons would work with staff to schedule presentations on the issues identified.



School Finance Formula Review Committee

VII. Written Documents on File in the Legislative Services Agency.

1. *School Finance in Iowa*, provided by Dr. Lee Tack.
2. *Financing Public Elementary and Secondary Education in Iowa*, Iowa Department of Education, August 2004, prepared by Dr. Lee Tack.
3. *FY 2004 School District Funding Sources and Amounts*, Iowa Department of Education, provided by Dr. Lee Tack.
4. Total Regular Program District Cost Comparison — FY 2004 Through FY 2006, Iowa Department of Education, provided by Dr. Lee Tack.
5. Overview of Department of Management's Role, provided by Ms. Lisa Oakley.

3499ic